

Financial Services Tax News

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PwC Japan Tax Newsletter

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Draft Bill for 2010 Japanese Tax Reforms: Taxation of Corporate Securities for Foreign Investors

On February 5, 2010, a draft bill for amending taxation laws ("Draft Bill") was submitted to the Japanese Parliament (Diet). This Newsletter provides a summary of the amendment for exemption from taxation on interest on corporate securities received by foreign investors; introduced in order to promote investments in Japanese capital markets.

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Tax exemption for interests on book-entry corporate bonds and JGBs etc. for foreign investors

(1) Book-entry corporate bonds

Currently, a non-resident individual and a foreign corporation without a permanent establishment in Japan is exempt from Japanese tax on interest and original issue discount (that is, any difference between the redemption price and the issue price) on book-entry Japanese Government Bonds (“JGBs”), Japanese Local Government Bonds (“JLGBs”, with JGBs, together “JGBs etc.”) and Eurobonds (Minkan Kokugai Sai). Under the Draft Bill, this exemption will now apply to book-entry corporate bonds and short term bonds. In addition, any difference between the redemption price and the acquisition price (“redemption gain”) will now also be exempt from Japanese taxation. This rule will also be applicable to book-entry bonds issued by a Tokutei Mokuteki Kaisha (“TMK”) or Japanese Real Estate Investment Trusts (“J-REITs”).

However, redemption gains on book-entry corporate bonds and short-term corporate bonds received by certain special related parties of the bond issuer will be excluded from this exemption. Moreover, certain bonds where interest is calculated based on the performance of the issuer and its related parties (including for example a profit linked bond) will also be excluded.

(2) Book-entry JGBs etc.

Consistent with the introduction of tax exemption for book-entry corporate bonds, redemption gains on book-entry JGBs etc., will also be exempt from Japanese taxation. Existing administrative procedures to enjoy this exemption rule will be simplified.

These amendments will be applicable to interest on book-entry corporate bonds and book-entry JGBs etc. whose calculation periods begin on or after June 1, 2010, redemption gains for book-entry JGBs etc. acquired on or after April 1, 2010, redemption gains on book-entry corporate bonds acquired on or after June 1, 2010 and redemption gains for specified short term bonds and specified short term JGBs etc. issued on or after June 1, 2010.

Revision of taxation exemption for interest on Eurobonds

The existing concessionary taxation exemption rule for interest and any difference between the redemption price and the issue price on Eurobonds will become permanent. However, Eurobonds held by the bond issuer’s special related parties and issued on or after April 1, 2010 are excluded from this exemption. Moreover, the new rule will not be applicable to Eurobonds where interest is calculated based on the performance of the issuer and its related parties (including for example a profit linked bond).

Finally, special concessions currently enjoyed by Eurobonds issued in Switzerland (Shitei Minkan Kokugai Sai) will be extended until March 31, 2012, and then abolished.

For more detailed information, please do not hesitate to contact your financial tax services representative or any of the following members:

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